

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



39TH DISTRICT AGRICULTURAL ASSOCIATION  
CALAVERAS COUNTY FAIR & JUMPING FROG JUBILEE  
ANGELS CAMP, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-038  
FOR THE YEAR ENDED  
DECEMBER 31, 2008

39TH DISTRICT AGRICULTURAL ASSOCIATION  
CALAVERAS COUNTY FAIR & JUMPING FROG JUBILEE  
ANGELS CAMP, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
DECEMBER 31, 2008

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AUDIT REPORT NUMBER

#09-039

39TH DISTRICT AGRICULTURAL ASSOCIATION  
CALAVERAS COUNTY FAIR & JUMPING FROG JUBILEE  
ANGELS CAMP, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Stephen Kautz, President  
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39th DAA, Calaveras County Fair & Jumping Frog Jubilee  
101 Frogtown Way  
P.O. Box 489  
Angels Camp, CA 95222-0489

### INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the accompanying statements of financial condition of the 39th District Agricultural Association (DAA), Calaveras County Fair & Jumping Frog Jubilee, Angels Camp, California, as of December 31, 2008, and the related statements of operations and changes in accountability for the year then ended. These financial statements are the responsibility of the 39th DAA's management.

Due to a lack of adequate documentation, we were unable to apply standard auditing procedures to satisfy ourselves as to the balances of several accounts, including Account #192, Buildings and Improvements; Account #192.01, Accumulated Depreciation Buildings and Improvements; Account #131, Accounts Receivable; Account #228, Deferred Income; Account #410, Admissions Revenue; Account #421, Concessions Revenue, and Account #422, Carnival Revenue. During our review of the Fair's Account #192, Buildings and Improvements, and the related depreciation, Account #192.01, Accumulated Depreciation Buildings and Improvements, our office noted several significant omissions to the Fair's property ledger and general ledger that potentially could have a material effect on the Fair's financial statements. Due to the lack of adequate records, we were unable to satisfy ourselves as to the balances in Account #192, Buildings and Improvements, and Account #192.01, Accumulated Depreciation, Buildings and Improvements, stated at \$3,213,686 and \$2,188,662, respectively. Additionally, the Fair had a receivable recorded at year-end that did not have adequate supporting documentation to establish whether the amount reported was entirely due to the Fair as of year-end 2008. The reasonable valuation of the receivable could not be established due to the lack of adequate support, and the resultant effects to the financial statements could not be determined. Therefore, we were unable to satisfy ourselves as to the balance reported in Account #131, Accounts Receivable, stated at \$122,166, net of an \$11,212 allowance account, at year-end 2008. Also, the Fair did not maintain a log for its deferred income and appears to have recorded at least \$7,125 in revenues during 2008 that should have been recorded as liabilities to Account #228, Deferred Income, instead. Due to

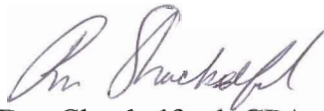


the lack of reliable records, it could not be readily determined whether an adjustment to the Fair's liability and revenue accounts would have resulted in the fair statement of the related accounts. It should be noted that the Fair's liabilities are understated and its revenues overstated by at least \$7,125 at year-end 2008. Furthermore, due to a lack of adequate controls and supporting documentation, the balances in Account #410, Admissions Revenue, #421, Carnival Revenue, and #422, Concessions Revenue, stated respectively at \$146,933, \$49,959, and \$70,789 for year-end 2008, could not be verified. A proper audit trail did not exist in order to allow for a determination to be made regarding the balances of these revenue accounts.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient enough to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph. In addition, we will not prepare or present a statement of cash flows as of December 31, 2008 on the 39th DAA - Calaveras County Fair and Jumping Frog Jubilee's behalf.

The 39th DAA, Calaveras County Fair & Jumping Frog Jubilee has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Management Report #09-039, on the 39th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 39th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



Ron Shackelford, CPA  
Chief, Audit Office

September 25, 2009

**39TH DISTRICT AGRICULTURAL ASSOCIATION  
CALAVERAS COUNTY FAIR  
ANGELS CAMP, CALIFORNIA**

**STATEMENT OF FINANCIAL CONDITION  
December 31, 2008**

|   | <b><u>Account<br/>Number</u></b> | <b><u>2008</u></b>         |
|---|----------------------------------|----------------------------|
| <b>ASSETS</b>                                     |                                  |                            |
| Cash in Bank                                      | 111-117                          | \$ 78,908                  |
| Accounts Receivable, Net                          | 131                              | 122,166                    |
| Prepaid Expenses                                  | 141                              | 215                        |
| Land  | 191                              | 71,698                     |
| Buildings and Improvements, Net                   | 192                              | 1,025,024                  |
| Equipment, Net                                    | 193                              | 24,281                     |
| <b>TOTAL ASSETS</b>                               |                                  | <b><u>1,322,291</u></b>    |
| <b>LIABILITIES AND NET RESOURCES</b>              |                                  |                            |
| <b>Liabilities</b>                                |                                  |                            |
| Accounts Payable                                  | 212                              | 91,660                     |
| Taxes Payable                                     | 221 - 226                        | 2,520                      |
| Deferred Income                                   | 228                              | 80,250                     |
| Miscellaneous Liabilities                         | 231-235                          | (1,156)                    |
| Guaranteed Deposits                               | 241                              | 1,084                      |
| Compensated Absences Liability                    | 245                              | 57,015                     |
| Long-Term Debt                                    | 250                              | 107,737                    |
| <b>Total Liabilities</b>                          |                                  | <b><u>339,111</u></b>      |
| <b>Net Resources</b>                              |                                  |                            |
| Reserve for Junior Livestock Auction              | 251                              | 61,908                     |
| Net Resources - Operations                        | 291                              | (91,994)                   |
| Net Resources - Capital Assets, less related debt | 291.1                            | 1,013,265                  |
| <b>Total Net Resources Available</b>              |                                  | <b><u>983,180</u></b>      |
| <b>TOTAL LIABILITIES AND NET RESOURCES</b>        |                                  | <b><u>\$ 1,322,291</u></b> |

**39TH DISTRICT AGRICULTURAL ASSOCIATION  
CALAVERAS COUNTY FAIR  
ANGELS CAMP, CALIFORNIA**

STATEMENT OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
Year Ended December 31, 2008

|   | <u>Account<br/>Number</u> | <u>2008</u>              |
|---|---------------------------|--------------------------|
| <b>REVENUE</b>                          |                           |                          |
| State Apportionments                    | 312                       | \$ 150,000               |
| Other - Millennium Flex Funding         | 317/318                   | 204,592                  |
| Admissions                              | 410                       | 146,933                  |
| Commercial Space                        | 415                       | 64,399                   |
| Carnival                                | 421                       | 49,959                   |
| Food Concessions                        | 422                       | 70,789                   |
| Exhibits                                | 430                       | 26,501                   |
| Fair Attractions                        | 460                       | 140                      |
| Miscellaneous                           | 470                       | 144,518                  |
| JLA - Revenue                           | 476                       | 435,187                  |
| Interim Revenue                         | 480                       | 123,245                  |
| Prior Year Adjustment                   | 490                       | (2,221)                  |
| Other Revenue                           | 495                       | 96,170                   |
| <b>Total Revenue</b>                    |                           | <b><u>1,510,213</u></b>  |
| <b>EXPENSES</b>                         |                           |                          |
| Administration                          | 500                       | 237,269                  |
| Maintenance and Operations              | 520                       | 233,399                  |
| Publicity                               | 540                       | 106,212                  |
| Attendance                              | 560                       | 78,986                   |
| Miscellaneous                           | 570                       | 12,167                   |
| JLA - Expense                           | 576                       | 432,912                  |
| Premiums                                | 580                       | 24,899                   |
| Non-Fair Expenses                       | 590                       | 14,553                   |
| Exhibits                                | 630                       | 41,825                   |
| Horse Show                              | 640                       | 7,737                    |
| Attractions - Fairtime                  | 660                       | 74,449                   |
| Equipment                               | 723                       | -                        |
| Prior Year Adjustments                  | 800                       | (11,887)                 |
| Cash Over/Short                         | 850                       | 387                      |
| Depreciation Expense                    | 900                       | 81,371                   |
| Other - Millennium Flex Expenditures    | 945/950                   | -                        |
| <b>Total Expenses</b>                   |                           | <b><u>1,334,279</u></b>  |
| <b>RESOURCES</b>                        |                           |                          |
| Net Change - Income / (Loss)            |                           | 175,934                  |
| Resources Available, January 1          |                           | 807,246                  |
| <b>Resources Available, December 31</b> |                           | <b><u>\$ 983,180</u></b> |

**39TH DISTRICT AGRICULTURAL ASSOCIATION  
CALAVERAS COUNTY FAIR & JUMPING FROG JUBILEE  
ANGELS CAMP, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2008

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 39th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Calaveras County Fair & Jumping Frog Jubilee each year in Angels Camp, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned



rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

## NOTE 2 NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3      **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents was presented by the DAA as of December 31:

|                                     | <u>2008</u>                    |
|-------------------------------------|--------------------------------|
| Petty Cash and Change Fund          | \$      400                    |
| Cash in Bank - Operating            | 32,579                         |
| Cash in Bank – Auction              | 4,409                          |
| Cash in Bank - Premium              | 0                              |
| Cash in Bank - Investment & Savings | <u>41,520</u>                  |
| <br>Total Cash and Cash Equivalents | <br><u><u>\$    78,908</u></u> |

NOTE 4      **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability. The DAA presents its account receivable for 2008 as the following:

|                                 | <u>2008</u>                    |
|---------------------------------|--------------------------------|
| Accounts Receivable             | \$   133,378                   |
| Allowance for Doubtful Accounts | <u>(11,212)</u>                |
| <br>Accounts Receivable - Net   | <br><u><u>\$   122,166</u></u> |

NOTE 5      **PROPERTY AND EQUIPMENT**

The DAA asserts that Buildings and improvements, and equipment at December 31, 2008 consist of the following:

|                                | <u>2008</u>                |
|--------------------------------|----------------------------|
| Building & Improvements        | \$ 3,213,686               |
| Less: Accumulated Depreciation | <u>(2,188,662)</u>         |
| Building & Improvements - Net  | <u><u>\$ 1,025,024</u></u> |
| <br>Equipment                  | <br>\$   135,843           |
| Less: Accumulated Depreciation | <u>(111,562)</u>           |
| Equipment – Net                | <u><u>\$    24,281</u></u> |

NOTE 6      **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are

actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7      **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 8      **LITIGATION**

The DAA is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations, the DAA's management believes none of which will have a material effect on its financial position or results of operations.

**39TH DISTRICT AGRICULTURAL ASSOCIATION  
CALAVERAS COUNTY FAIR & JUMPING FROG JUBILEE  
ANGELS CAMP, CALIFORNIA**

REPORT DISTRIBUTION

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| 1             | President, 39th DAA Board of Directors      |
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| 1             | Director, Division of Fairs and Expositions |
| 1             | Chief Counsel, CDFA Legal Office            |
| 1             | Chief, CDFA Audit Office                    |

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



39TH DISTRICT AGRICULTURAL ASSOCIATION  
CALAVERAS COUNTY FAIR & JUMPING FROG JUBILEE  
ANGELS CAMP, CALIFORNIA

MANAGEMENT REPORT #09-039

YEAR ENDED DECEMBER 31, 2008

39TH DISTRICT AGRICULTURAL ASSOCIATION  
CALAVERAS COUNTY FAIR & JUMPING FROG JUBILEE  
ANGELS CAMP, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2008

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Audit Chief  
Assistant Audit Chief  
Auditor  
Auditor

MANAGEMENT REPORT NUMBER  
#09-039



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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Stephen Kautz, President  
Board of Directors  
39th DAA, Calaveras County Fair & Jumping Frog Jubilee  
101 Frogtown Way  
P.O. Box 489  
Angels Camp, CA 95222-0489

In planning and performing our audit of the financial statements of the 39th District Agricultural Association (DAA), Calaveras County Fair & Jumping Frog Jubilee, Angels Camp, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Calaveras County Fair & Jumping Frog Jubilee with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 39th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in



operations to adequately safeguard the 39th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 39th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 39th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 39th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 39th DAA and compliance with state laws and regulations, we identified ten areas with reportable conditions that are considered weaknesses in the Fair's operations: 2008 statement of operations, accounting for fixed assets, accounts receivable, cash accounting, admissions revenue, carnival revenue, deferred income, standard agreements, opportunity purchases, and junior livestock auction. We have provided twenty-four recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 39th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### 2008 STATEMENT OF OPERATIONS

During the fieldwork phase of our audit, our office noted material accounting errors and omissions lacking accordance with generally accepted accounting principles (GAAP) in certain asset and liability balances presented in the 2008 Statement of Operations (STOP). Furthermore, our office noted the Fair did not maintain a sufficient audit trail to support a number of account balances reported in its general ledger (G/L) and STOP, including but not limited to fixed assets, accounts receivable, cash, and deferred income. Due to the materiality of the accounting errors, our office will issue a disclaimer of opinion on the 2008 financial statements. We will specify the related errors and omissions in the following sections of this report.

#### *Recommendations*

- 1. The Fair should make it a priority to research and correct the accounting errors and omissions that currently exist in its financial records. Furthermore, the Fair should ensure it is accounting for all financial transactions in accordance with GAAP.*
- 2. The Fair should ensure a clear audit trail exists at year-end as it closes its accounting records and prepares the annual Statement of Operations. Specifically, the Fair should ensure it maintains sufficient documentation to support amounts recorded to the G/L, reflected in the trial balance, and subsequently reported on the STOP at year-end.*

### ACCOUNTING FOR FIXED ASSETS

Our office performed an examination of the Fair's accounting for fixed assets, and the following conditions were noted:

- a. The Fair's property ledger is not complete and, as a result, the balances in the G/L for Account #192, Buildings and Improvement, and the related accumulated depreciation, Account #192.01, respectively recorded at \$3,213,686 and \$2,188,663, cannot be relied upon. The Fair had potentially material omissions from Account #192, Buildings and Improvements, and the effects to the financial statements could not be readily determined. The Fair has not adequately accounted for arena bleachers, a 20'x 20' brick & mortar building located by the "driving range," a waterfall, a pond, the floriculture building, and a gazebo. Through observation, we discovered that the 1955 wooden bleachers, which appear on the Fair's Fixed Asset Depreciation Schedule, had been replaced with metal seating; the wooden bleachers' disposal was not recorded, nor was the metal seating added to the Asset Depreciation Schedule. The Fair could provide no documentation of the value or historical cost of the omitted assets and, as a result, it could not be determined to what extent the Fair's Account #192, Buildings and Improvements, and the related accumulated depreciation, Account, #192.01, were understated. The lack of adequate supporting documentation

constitutes a scope limitation and will require us to issue a disclaimer of opinion on the Fair's financial statements.

- b. Due to a lack of supporting documentation, the cost of the 2008 Frogeteria renovation, recorded at approximately \$78,657, could not be verified. There were several invoices associated with the Frogeteria renovation recorded in G/L Account #946.04, Project – Frogeteria Deck, and subsequently capitalized, that were not found within the project file. Because the documents were not available for review, it could not be determined whether the amounts were appropriately included as part of the cost of the Frogeteria project. Also, supporting documents for some of the project expenditures did not agree to amounts recorded into the G/L. For example, amounts recorded in the G/L for Fair day labor varied \$3,925 from supporting time records; the time records showed \$7,996 in wages associated with the Frogeteria project, whereas the G/L showed \$11,921. Additionally, \$16,423 worth of non-monetary assets were included in the \$78,657 capitalized amount; these items included chairs, table carts, chair carts, portable buffet tables, vacuums, and a steam carpet cleaner. Furthermore, a \$2,300 invoice denoted as “dinners” was also inappropriately included as part of the project's capitalized value. Because of the inclusion of these non-capital expenses, the project was overstated by at least \$18,732. However, the accurate valuation of the historical cost of the project could not be determined due to lack of supporting documentation.
- c. The Fair's Account #193, Equipment, and the related accumulated depreciation account appear to be understated. The Fair received a golf cart as a donation which should have been capitalized at its fair market value, which was assessed as \$5,000. Per State Administrative Manual (SAM) section 8621, the gift should have been recorded at its fair market value at the date it was given. The Department of Finance asset capitalization criteria are for assets having a useful life of greater than one year and a cost of greater than \$5,000. Due to the omission, Account #193, Equipment, was understated by \$5,000 at year-end 2008.
- d. The Fair overstated an improvement of barn rubber mats by \$2,330. The rubber mats, which cost \$97,380, were recorded into the Fair's Account #192, Buildings and Improvements, and the Asset Depreciation Schedule at \$99,710. The higher figure included an interest charge for delinquent payment that was later forgiven by the vendor and should not have been included as part of the project's capitalized cost.
- e. The Fair has not complied with SAM Section 8652, which requires a physical count of all property and reconciliation to the property ledger at least once every three years. The non-monetary assets list provided by the Fair did not include several assets observed on fairgrounds. The list inaccurately included items that were being leased, to which the Fair has no claim of ownership. Additionally, the list inappropriately included items that were the personal property of a fulltime employee rather than Fair property. Compounding this issue, it appears the Fair does not properly tag State equipment for identification, as required by SAM Section 8651.

*Recommendations*

3. *The Fair should update its property ledger to reflect all assets that meet the Department of Finance capitalization criteria. In the cases where the historical costs of the assets are not available, the Fair should follow the CDFA Fixed Asset Policy and Procedures Manual, which outlines procedures for fairs to follow when historical property records do not exist, as well as other authoritative pronouncements, such as GASB No. 34, which allows fairs and other entities to estimate the cost by deflating a current replacement cost through the use of price-level indexes.*
4. *The Fair should research the costs involved with its Frogeteria project and adjust the property records to reflect only those costs that should have been capitalized as part of the project. In the future, the Fair should maintain all support for its project expenditures. Expenses recorded in the G/L should agree to invoices or other supporting records.*
5. *The Fair should ensure it records all assets that meet the Department of Finance capitalization criteria in its property records, including those that are donated. The Fair should comply with SAM 8621 and record the donated golf cart as part of its equipment at the fair market value as of the date it was given by the donor.*
6. *The Fair should adjust its Barn Mats Project to reflect the correct historical cost of the asset. Going forward, the Fair should ensure it is not overstating its fixed assets by including amounts that should not be recorded as part of a capital project.*
7. *The Fair should comply with SAM Section 8652 and perform an inventory of all State-owned assets at least once every three years. Additionally, the Fair should update its non-monetary assets list to reflect only those items that are owned by the Fair, removing entries to which the Fair has no claim of ownership. The Fair should also comply with SAM Section 8651 and ensure that all State-owned property is adequately tagged and tracked. This will help alleviate any confusion there might be regarding ownership rights to the property.*

**ACCOUNTS RECEIVABLE**

A review of the Fair's accounts receivable revealed the following conditions:

- a. The Fair overstated its G/L Account, #131, Accounts Receivable, by at least \$2,330 and potentially as much as \$71,254 at year-end 2008. During 2008, the Fair was approved for a grant from California Integrated Waste Management Board (CIWMB) to fund its Barn Mats Project. At year-end 2008, the Fair showed a \$99,710 receivable, of which approximately \$2,330 related to interest that was not part of the original grant but appeared on the payable invoice. The CIWMB grant amounts seem to be reimbursements for the expenditures that have been paid. Per the contract, the total grant amount is "not to exceed \$97,380;" however, it is not clear whether the Fair was actually entitled to the entire \$97,380 as of year-end 2008. The Fair applied for \$28,456 in reimbursements during November 2008 and received a payment of \$25,610 from CIWMB on January 8, 2009. The Fair received an additional

reimbursement of \$62,032 from CIWMB on March, 23, 2009, to clear a loan it had taken out from CCA during January 2009 for \$68,924 in order to make the remaining payment on the invoice for the mats. Reimbursements from CIWMB appeared to have been 90% of the expenditure totals in both instances. Because the reimbursement amounts were reduced by 10% in both instances, it is unlikely the reduction is arbitrary, but it remains unclear why the Fair was not reimbursed for the total expenditure or whether the Fair was entitled to receive the entire amount. Additionally, because it seems the amounts are reimbursed by CIWMB only when there is proof of actual payment, it appears the Fair may not have been entitled to establish a receivable at year-end 2008 for the amounts it had not yet paid out. However, the amount of receivable the Fair was entitled to establish at year-end 2008 cannot be readily established due to the Fair's inability to provide specific grant terms. Documentation provided by the Fair for outstanding receivables shows that \$12,086 remains outstanding on the CIWMB account as of September 2009. Because the Fair was unable to provide grant terms for reimbursement, it is unclear whether the Fair is entitled to recover any of the \$12,086 that remains outstanding. Due to the lack of adequate documentation and the materiality of the amount involved, the balance in the Fair's Account #131, Accounts Receivable, could not be verified.

- b. The Fair had a receivable from its Junior Livestock Auction (JLA) for \$1,589, for which it received partial payment from a collection company but did not reduce the receivable amount. Additionally, an allowance account should have been established for the portion that had been deemed uncollectible to more fairly represent the Fair's accounts receivable assets at year-end.
- c. The Fair received a \$1,200 payment in 2009 for an amount outstanding from a 2008 event. GAAP dictates that revenues be accrued when they are earned and receivables should be established for the amounts that are outstanding at year-end.

#### *Recommendations*

- 8. *The Fair should ensure it establishes receivables only for amounts to which it is entitled and refrain from overstating its receivable amounts. The Fair should reduce its current receivable from CIWMB by at least \$2,330 and should assess whether it is entitled to collect the remaining amount. Going forward, the Fair should maintain adequate supporting documentation to support amounts that the Fair reports as its receivables.*
- 9. *The Fair should ensure it credits payments to the appropriate receivable account when amounts are received that reduce the outstanding balance. The Fair should record an allowance for amounts that are deemed uncollectible in order to more fairly state the Fair's receivables in the financial statements.*
- 10. *The Fair should adhere to GAAP and adequately accrue revenue it has earned but not yet received and record a receivable for any amount outstanding at year-end.*

## CASH ACCOUNTING

A review of the Fair's cash accounting practices revealed the following conditions:

- a. The Fair did not have proper accountability for its fairtime cash receipts. During the month of May, fair month, the Fair did not adequately track its cash receipts and deposits. The Fair had two cash receipts totaling \$6,471 that appeared to be voided, and therefore did not constitute cash received, but were inaccurately recorded as revenue. As a result, the revenue was overstated, and the Fair's operating cash could not be reconciled for the month of May. Also, the Fair had a \$4,500 deposit correction that was posted to reduce cash and revenue for fairtime admissions for which there was no adequate explanation. There was no clear support to tie amounts shown on the Fair's cash receipt journal to the amounts deposited in the Fair's bank account. Due to the lack of a proper audit trail, it could not readily be determined whether all amounts collected during May were appropriately deposited into the Fair's bank account.
- b. During 2008, the Fair's bank reconciliations were not always performed or reviewed in a timely manner. SAM Section 7901 requires all reconciliations to be "performed monthly within thirty days of the preceding month." Bank reconciliations for the months of April 2008 through September 2008 for both the Operating and JLA cash accounts were not performed until January 2009. Bank reconciliations for the months of October 2008 through December 2008 were not performed until March 2009. The bank reconciliation for the JLA cash account for September 2008 showed no date and no review signature. The year-end bank reconciliation for the operating account was \$120 off from the general ledger balance. This is a prior year finding.
- c. The Fair reported the incorrect amounts for its general ledger cash account balances on the Standard Form 445 (Std 445), Report of Bank/Savings and Loan Association Account Outside the Treasury System. The report is sent to the State Treasurer's Office to document each bank account general ledger balance at June 30, the end of the fiscal year; however, for 2008, the Fair reported the May ending bank balances for its cash balances on the Std 445.

### *Recommendations*

- 11. The Fair should make it a priority to emphasize better control over its cash. Variances between cash deposits and cash receipts should be researched in a timely manner and discrepancies should be resolved as soon as possible. The Fair should ensure it maintains better accounting transparency in its cash receipts; namely, records should adequately demonstrate that all receipted cash has been appropriately deposited.*
- 12. The Fair should comply with SAM Section 7901 and perform and review bank reconciliations monthly within thirty days of the preceding month's end.*
- 13. The Fair should report accurate figures on its Std 445, Report of Bank/Savings and Loan Association Accounts Outside the Treasury System, going forward. June 30th general ledger balances should be used to report the Fair's financial position at fiscal year-end to the State Treasurer's Office.*



### ADMISSIONS REVENUE

The Fair did not maintain proper accountability for its admissions revenue for 2008. The Fair did not retain its unused tickets, known as deadwood, for audit. Tickets were reused for the next Fair by the time fieldwork occurred, and ticket inventory paperwork did not appear to be reliable. We were unable to use an audit of the deadwood to substantiate the amounts reported on the Fair's 2008 Statement of Operations for ticket sales. Also, the Fair did not have a proper system of accountability for its charge card sales related to admissions tickets. It could not be established whether the differences between cash collected and ticket sales reported on ticket sellers' sheets related to verifiable charge sales. Additionally, as noted above in Cash Accounting, a \$4,500 adjustment was made to reduce admissions revenue with no clear support for the reason the amount was reduced. As a result of these practices, we are unable to establish whether the Fair's Account #410, Admissions Revenue, was fairly stated at year-end 2008. This is a prior year finding.

#### *Recommendations*

- 14. The Fair should retain deadwood and reuse tickets only after a proper audit has been performed.*
- 15. The Fair should develop a system for properly accounting for its credit card sales, such as retaining copies of charge slips, performing a nightly reconciliation of the charge amounts, and attaching the supporting documents to the ticket sellers' reports.*
- 16. The Fair should refrain from making adjustments for which it has no supporting documentation.*

### CARNIVAL REVENUE

The Fair did not maintain proper accountability over its carnival revenues for 2008. During 2008, the Fair experienced an emergency situation; a carnival accident occurred, requiring the carnival to shut down operations and the Fair to provide refunds to its patrons who had purchased carnival tickets and wristbands. The Fair reduced G/L Account #421, Carnival Revenue, by \$15,526 in cash refunds given out the day of the accident but could not provide documentation to substantiate this was an appropriate figure. It is apparent that the Fair was attempting to cope with an emergency situation; however, no paperwork or explanation was available to establish how the \$15,526 figure was derived. Due to the lack of substantiation, no determination could be made as to the balance that should have been reported as carnival revenues for the Fair for 2008.

#### *Recommendation*

- 17. Even during emergency situations, the Fair needs to maintain a level of accountability over its cash and revenue accounts. Going forward, the Fair should maintain paperwork that supports adjustments made to its revenue accounts and should ensure proper accountability is in place to prevent any potential losses to the Fair.*

**DEFERRED INCOME**

The Fair did not maintain a log for amounts related to its deferred income liability at year-end 2008. We noted items that had been prepaid during 2008 for events that would occur in 2009 were incorrectly recorded as revenue instead of the appropriate liability. GAAP requires that revenue is recorded when it is earned; because the events had not occurred prior to year-end 2008, the revenue had not been earned, and the amounts should have been recorded as liabilities. At year-end 2008, the Fair's Account #228, Deferred Income, was understated, and its revenues overstated, by at least \$7,125. This is a prior year finding.

*Recommendation*

*18. The Fair should keep a record of individuals that have prepaid for events that will not occur until the following year. The Fair should comply with GAAP and ensure receipts are not recorded into a revenue account until the event has occurred and the revenue has been earned by the Fair. For events paid in the current year but not occurring until a subsequent year, the Fair should credit amounts to its deferred income liability.*

**STANDARD AGREEMENTS**

A review of the Fair's cash Standard Agreements revealed the following conditions:

- a. The Fair did not issue Internal Revenue Service (IRS) Form 1099 to three contractors paid \$600 or more during 2008. Additionally, the Fair issued a Form 1099 for an inaccurate amount to one of its contractors. The contractor received \$2,400, but the Form 1099 issued by the Fair indicated the contractor had been paid \$4,800
- b. The Fair made payments to five contractors without having the required standard agreements on file. Per the Accounting Procedures Manual (APM) Section III, 1.3, standard agreements are to be developed for all services performed by independent contractors. The payments made to these contractors totaled \$51,348.
- c. The Fair's contracts had notable deficiencies. Eleven of fourteen contracts sampled had no signed Contractor Certification Clause incorporated as part of the contract. Ten had no Standard Form 204, Payee Data Form (Std 204), or IRS Form W-9 attached. Four were not signed by both parties to the contract. Three lacked specific terms as to the services to be performed by the contractor and contained no details as to what the Fair had agreed to provide during the contract period.
- d. The Fair had two contracts for non-resident entertainers who did not complete Franchise Tax Board (FTB) Form 589, Exemption from Withholding. Also, the Fair did not withhold the required 7% from the contractors' gross payments.

*Recommendations*

- 19. The Fair should ensure it issues an accurate IRS Form 1099 for each of its independent contractors who are paid in excess of \$600 and are not exempt from the reporting requirements.*
- 20. The Fair should comply with the APM by ensuring standard agreements are prepared for all services performed by independent contractors.*

21. *The Fair should comply with the F&E Contract Manual by ensuring all components of standard contracts are adequately developed and maintained.*
22. *The Fair should comply with FTB regulations that require a 7% withholding from payments made to non-resident entertainers unless an exemption from withholding has been granted.*

### **OPPORTUNITY PURCHASES**

The Fair did not obtain quotes for opportunity purchases exceeding \$100 as required by Public Contract Code (PCC) Section 10321, which requires that the Fair demonstrate that the purchase is equal to or less than the price at which it is available through the State Purchasing Program. Bid requirements for district agricultural associations have been provided to the Fair. Additionally, the Fair did not prepare Standard Form 65, Purchasing Authority Purchase Order (Std 65), for opportunity purchases as required. Opportunity purchases should be denoted as such by marking the “contract registration” box with the word “opportunity.” To claim an opportunity purchase, the Fair must separately identify these opportunity purchases and demonstrate their compliance with the PCC.

#### *Recommendation*

23. *The Fair should follow the guidelines set forth in PCC Section 10321 when making and claiming opportunity purchases.*

### **ACCOUNTING FOR THE JUNIOR LIVESTOCK AUCTION**

The Fair did not maintain proper accountability over its Junior Livestock Auction. Recalculation of the net effect, given figures on the Market Auction Spreadsheet prepared the night of the auction, indicated approximately \$6,814 in revenue to be received from buyers went unaccounted for. An adjustment had been made to the Fair’s G/L Account #131.2, Accounts Receivable – JLA, to reduce the receivables by \$6,814 in order “To adjust JLA AR to fairs recon.” However, it appears the Fair’s reconciliation may have not appropriately tracked the full amount of revenues the Fair was owed, and the amount of JLA revenue reported on the Fair’s 2008 Statement of Operations may have been understated by \$6,814.

#### *Recommendation*

24. *The Fair should research potential amounts outstanding from its 2008 Junior Livestock Auction to determine whether additional items of income should have been recorded for 2008. Going forward, the Fair should ensure it maintains proper accountability for all revenue related to its JLA accounts.*

## NON-REPORTABLE CONDITIONS

### CONCESSIONS REVENUE

A review of the Fair's Concessions Revenue revealed the following conditions:

- a. The Fair inappropriately reduced the amount of revenue owed from a concessionaire by an invoice for food given to the Fair. An invoice for \$2,428 was offset against the amount the concessionaire owed. GAAP dictates that revenues and expenditures should not be offset in this manner. The Fair should have recorded the full amounts of revenue from concessions as well as the food expense incurred by the Fair. Additionally, the Fair recorded revenue for what appeared to be a voided cash receipt for the same concessionaire, adding to the misstatement of the revenue.
- b. It appears the Fair may not have received all amounts it was owed from a particular concessionaire during 2008. The Fair's documentation suggests that an outstanding balance of \$1,247 should have been recorded as revenue and had a receivable established at year-end 2008.
- c. The Fair did not always have adequate signed contracts for its concessionaires. The Fair could not locate the contract for its master concessionaire, and seven of the contracts sampled did not have signatures of both parties. Additionally, the Fair did not require its concessionaires to sign or initial for the specific terms of the contract. The Fair used a boilerplate contract for its concessionaires that denoted specific terms were outlined in "Exhibit D;" however, in certain instances the attached Exhibit D was blank or stated terms were "TBD," with no determination ever documented. We did not observe any instances where the concessionaires signed acknowledgement of the specific terms of their contracts.
- d. The Fair exposed itself to loss by not obtaining the supporting keg reports to verify its revenues due from its master concessionaire for alcohol. Per APM, Section II, 2.23, "the Fair must be vigilant to make sure all revenue is reported," especially when the revenues due are based on a percentage of sales. The Fair provided no keg reports or Z-tape copies to support the amounts calculated by the vendor, nor was there any evidence that the Fair had reviewed any documentation to substantiate the figures. The Fair should maintain keg reports, as well as settlement sheets and Z-tape records, for all of its concessionaires, including its alcohol concessionaires. At a minimum, the Fair should ensure it performs and documents the verification of the amounts reported.

### Recommendations

*The Fair should strengthen its controls over concessions revenue. The Fair should follow GAAP by recording all amounts related to concessions revenue and food expenses to the proper accounts. Contracts for concessionaires should be properly signed, with the specific terms of the contracts being adequately acknowledged with initials or a signature. The Fair should ensure that it maintains the proper paperwork to substantiate its concessions revenues, including, but not limited to, reports to substantiate the alcohol sales from its master concessionaire.*

## COURTESY AND CREDENTIAL PASSES

Due to the lack of documentation, it could not be determined whether the Fair complied with the courtesy pass limitation of 4% or issued credential passes appropriately. The Fair could not provide listings of the courtesy and credential passes issued for 2008. Food and Agriculture Code Section 3028 states, "Each fair shall maintain complete records of the number of credential and courtesy passes which are issued for each fair period." Food and Agriculture Code Section 3026 requires that "the percentage of courtesy pass admissions to any state, county, district, or citrus fruit fair shall not exceed 4 percent of the gross paid admissions to the fair in the preceding calendar year." The Fair reported no amount on its 2008 Statement of Operations for courtesy or credential passes, even though it appears that passes were issued.

### *Recommendations*

*The Fair should adhere to Food and Agriculture Code Sections 3026 and 3028 by maintaining accurate records for all courtesy and credential passes issued during a fair period, demonstrating that courtesy passes issued did not exceed the 4% limitation and that credential passes were appropriately issued. The Fair should ensure accurate amounts for courtesy and credential passes are calculated and reported on the STOP as required.*

## PAYROLL ACCOUNTING

A review of the Fair's payroll accounting practices revealed the following conditions:

- a. The Fair allowed two temporary employees to work in excess of the 119-day limitation within a calendar year. Although the Fair monitored the number of days worked by each temporary employee, these employees worked 147 and 150 days during 2008. According to the Constitution of the State of California, Article VII, Section 4(1), officers and employees of district agricultural associations employed less than six months in a calendar year are exempt from civil service. However, temporary employees working six months or more in a calendar year may not be exempt from civil service law as intended. Six months approximately equates to 120 days, considering a five-day work week, regardless of the number of hours worked in a day. Based on these considerations, the APM Section III, 4.34 states that temporary employees may not work more than 119 days in a calendar year. This was a prior year finding.
- b. During 2008, we noted time sheets signed by supervisors who were directly related to the subordinates. Per APM Section III, 4.2, citing CDFA Procedural Circular II-20 regarding nepotism, "direct supervision of any employee, permanent, temporary, or seasonal, with whom the supervisor has a personal relationship" is prohibited. Based on the regulations, the supervisors' approvals of hours worked on time sheets of their family members was in direct violation of CDFA's nepotism policy.
- c. The Fair did not maintain the required Form I-9, Employment Eligibility Verification Form, for its temporary employees. For the eight temporary employees sampled, five did

Management Report #08-039

Angels Camp, California

not have the required form and three had forms that were incomplete and lacked necessary information.

*Recommendations*

*The Fair should continue to monitor the number of days worked by temporary employees and ensure that the 119-day limitation is not exceeded going forward. The Fair should discontinue the practice of direct supervision of employees by their own family members, ensuring compliance with CDFA's nepotism policy. The Fair should maintain the proper hiring paperwork for all of its temporary employees, including Form I-9.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**

State of California

39<sup>th</sup> District Agricultural Association  
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**MEMORANDUM**

**Date:** 1/9/2010

**To:** Ron Shackelford, CPA,  
Chief, Audit Office  
Department of Food and Agriculture

**Cc:** Michael Treacy, Director, Fairs and Expositions  
Bruce Lim, Deputy Director, Fairs & Expositions  
Rick Wood, CFSA  
39<sup>th</sup> DAA Board of Directors

**From:** Steven Kautz, President  
Ray Malerbi, CEO  
39<sup>th</sup> District Agricultural Association

**Re:** CDFA Management Report #09-039 – Response to Findings

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The following is the Fair's response to the preliminary draft of the CDFA audit for the year ending 12/31/08.

Reportable Conditions

2008 Statement of Operations

1. The Fair has implemented an "Internal Accounting & Office Procedure Upgrade Project" and, as part of the program, is in the process of researching and correcting the errors and omissions that currently exist in the 2008 STOP. The Division of Fairs & Expositions is assisting us with this project. The Fair is in direct contact with Division, thru Diana Paluszak of their staff, and the Fair acquiring assistance ranging from historical financial, attendance and related information. Division has also set up a group of "challenged" fairs to not only discuss our issues, but to find out how Division can further assist each fair. As an outgrowth of those meetings Division is providing a retired accounting manager from the Ventura Fair to not only help correct the existing issues, but to help set up procedures to prevent these errors from occurring in the future. We are also working with CFSA, our accounting contractor to make the necessary corrections to ensure all transactions are accounted for in accordance with GAAP.
2. The Fair, as part of the current accounting upgrade project (see # 1 above), is putting in place new procedures, logs, forms and documents to provide a clear audit trail for the end of the year preparation of the STOP.

Accounting for Fixed Assets

3. The Fair, as part of the current accounting upgrade project, is updating our property ledger and will adhere to all the recommendation of the audit. The items noted in the audit will be reflected in the 2009 STOP.



4. The Fair is reevaluating the costs for the Frogeteria Project as recommended. During this investigation it has been found that additional items and labor that were donated were not included in the original valuation. This will also be included in the adjusted figures. Adjustments to the value of the project and the capitalization will be reflected in the 2009 STOP. The Fair is also developing a more comprehensive system of tracking invoices to allow for a clear audit trail to future projects.
5. The Fair is in the process of reevaluating the equipment property ledger and all items acquired by any means being recorded and capitalized properly.
6. The Barn Mat Project valuation has been corrected and it will be reflected in the 2009 STOP.
7. An inventory of equipment for the 39<sup>th</sup> DAA had not been done for more than 15 years. An attempt to a rough inventory began in November of 2007 after the audit for 2006 noted the lack of documentation. Due to a number of factors, including layoffs, a carnival accident during the 2008 Fair and lack of prior documentation the Fair did not proceed with a proper inventory of all assets until January 2009, which became a part of a project to list all equipment, provide proper storage, note missing or non working equipment and list realistic needs for new equipment and prepare a priority list and timetable to acquire equipment. Due to staff limitations and lack of proper controls in the past the task was only partially completed. In January of 2010 phase II of the project began. It is anticipated it will take 2 more years to complete the program, but at that time implementing a three year audit will be become part of the routine plan.

#### Accounts Receivable

8. The Fair has corrected the Barn Mat valuation and it will be reflected in the 2009 STOP. The misrepresentation of the AR on this project was due to the need for the Fair to pay the project off before receiving reimbursement from Integrated Waste Management. Because of major cash flow issues the Fair was only able to pay in installments, the last of which was paid from a loan from F&E. IWM reimbursed the Fair based on each payment. It took two years to receive the reimbursement of the entire project. The recording of the values was also exacerbated by a lack of proper communication between the Fair and CFSA.
9. This item is being addressed as part of the "Internal Accounting & Office Procedure Upgrade Project" (see # 1 above)
10. This item is being addressed as part of the "Internal Accounting & Office Procedure Upgrade Project" (see # 1. above)

#### Cash Accounting

11. Cash control is priority one of the Accounting Upgrade Project. Having a proper audit trail for all cash is a great priority for the Fair.

The problems encountered with the 2008 Fair were exacerbated by the need to refund carnival wristbands immediately after the carnival accident. The accident took place at 6:05 P.M. on Friday evening of Fair. Within ½ hour of the accident Secretary Kawamura was in contact with 39<sup>th</sup> DAA CEO Malerbi by cell phone to offer support and after being assured by Malerbi that the victims were being well attended to and all necessary emergency procedures were working well, the Secretary instructed Malerbi to do whatever was necessary to care for the public. Immediately after CEO Malerbi talked with the Secretary, Division Deputy Director Lim talked to Malerbi and again offered any necessary support, including staff and financial assistance. CEO Malerbi told Mr. Lim that he was authorizing cash refunds for carnival wristbands at the office and that, while staff would do the best to control the situation, accounting for the refunds would be difficult. The Deputy Director was in full accord with the decision. CEO Malerbi and FMR Giannini, the only full time staff members for the 39<sup>th</sup> DAA were both at the accident site. Board Vice President Folendorf

was in the Administration Building and was in contact with Malerbi. Malerbi instructed that a refund program be put in place immediately, that refunds be given to only those people that had bands or tickets, the bands or tickets be taken in receipt of the refund and a list of names be taken. The plan was implemented, but to keep cash flowing for the refunds cash was taken from cash control so quickly that no accountability of which revenue area the cash was generated from could be tracked. Much later in the evening CEO Malerbi instructed cash control to attempt to balance the entire day as a unit, which was done to the best of staff's ability.

While the Fair fully acknowledges the poor documentation for the entire Fair and pre fair cash accounting and the need to implement more controls, which is being done as part of the Accounting Update Project, it is the Fair's position that most of the problems were an anomaly, and if a similar disaster were to happen in the future the Fair is better prepared to deal with the financial controls.

12. The Fair has requested its bank reconciliations from CFSA in a timely manner for the last two years. Unfortunately the documents are usually not received in a timely manner. Sometimes two or three months arrive together. When received the reconciliations are reviewed within two days of receipt and then filed. A review of dates attached to the signatures of both the CFSA preparer and the Fair CEO will show this. The Fair will again discuss what constitutes a timely reconciliation and review with CFSA.
13. The Fair did report inaccurate figures on its Std 445. This was an input error. In order to prevent this type of error in the future, additional oversight review of the document will take place.

#### Admission Revenue

14. The Fair is in a fiscal crisis. All areas of expense have been looked at and savings have been implemented wherever possible. If the Fair was later in the calendar year, or we had our audit early in the year this recommendation could easily be implemented without additional costs.
15. The Fair will implement the audit recommendations regarding credit card sales by attaching the individual cc slip to the individual seller's reconciliation sheet and keep a daily total as well.
16. No adjustments will be made without supporting documentation attached to any item that has been adjusted.

#### Carnival Revenue

17. Please see # 11 above.

#### Deferred Income

18. The Fair notes this is a prior year finding. The Fair began to correct the matter at the beginning of 2009 (the audit for 2007 took place late in 2008 and staff was not aware of the issue until the audit). The implementation of the "Internal Accounting & Office Procedure Upgrade Project" is also addressing this issue with the implementation of a new tracking tool. Unfortunately this will not show up until the 2010 audit.

#### Standardized Agreements

19. The Fair, as part of the implementation of the new project (see item # 1), has brought on a part time staff person to assist in contract preparation and tracking. This person is receiving training from two contract people from two other fairs. This training and implementation of

new procedures will eliminate the issue. Again, this will not be visible until the 2010 audit due to Fair and audit timing.

20. See # 19 above

21. See # 19 above

22. See # 19 above

#### Opportunity Purchases

23. The Fair has implemented the use of a document to detail bids on opportunity purchases and will be in compliance in 2010. The Fair sent Std 65s for opportunity purchases to DGS and was directed over the phone (no name recorded) that DGS did not want opportunity purchase information and was not going to process it.

#### Accounting for the Junior Livestock Auction Standard Agreements

24. The Fair has researched the 2008 Auction and found inconsistencies as posting errors and is working with CFSA to correct them. As part of the implementation of the new project (see item # 1), the JLA accounting is being corrected.

#### Non-Reportable Conditions

Although responses are not required the Fair feels it is important to acknowledge receipt and disposition for these items.

Concession Revenue – As part of the implementation of the new project (see item # 1) and the hiring of a part time contract administrator it is the Fair's intention that the items noted will not be an issue in the future.

Courtesy and Credential Passes – The Fair began new controls in 2009 and improved the audit trail for credentials and courtesy passes. The controls will be strengthened for 2010.

Payroll Accounting – The Fair will attempt to more accurately track the number of days temporary employees work. The Fair does not condone direct supervision of family members. At times, due to the small permanent staff, some employee time sheets may have been approved by a relative, but all those sheets should have been initialed by the CEO. Every attempt will be made to insure proper approval of all time sheets. The addition of the part time staff person should greatly assist in assuring that the proper documentation for all temporary employees is maintained.

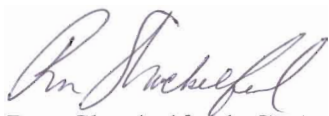
**CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 39th DAA, Calaveras County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

**DISPOSITION OF AUDIT RESULTS**

The findings in this management report are based on fieldwork that my staff performed between September 14, 2009 and September 25, 2009. My staff met with management on September 25, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA  
Chief, Audit Office

September 25, 2009

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